Vol. 01, No. 01: October (2015)

Review of Social Sciences

Open access available at http://socialsciencejournal.org

Relationship of competitiveness and social cohesion in the European Union

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ARTICLE INFO

Received: 00-00-0000
Accepted: 00-00-0000
Available online: 00-00-0000

Keywords:
convergence,
Europe 2020 strategy,

JEL Classification:

ABSTRACT

The current study strives to present how the European Union changed its economic policy due to the economic and financial crises and the fierce global competition. The main emphasis was laid upon competitiveness on contrary of cohesion and social and economic close up of the newly joined Middle- and Eastern European countries. Funds serving the target of competitiveness for growth and employment are increased by 6-7% annually during the budget period 2007-2013 while agricultural spending decreases by 3% annually. The change of paradigm projects the two speed Europe concept and causes severe tensions between the core regions and the peripheries.

DOI: http://dx.doi.org/10.18533/rss.v1i1.4

1.0 Introduction

In my current study I try to prove that due to the economic, financial crises and the fierce global competition, the European Union does not have other choice but to strengthen its competitiveness on contrary of cohesion. In today's globalizing world of increasing competitiveness, the European Union's situation is becoming increasingly difficult, because it needs to enhance its competitiveness against other economic centres of the world and it should take effective action to achieve regional and social cohesion within the EU. Solving the dual task is really challenging, since falling behind the world's market leaders obviously leads to further deepening regional and social disparities, while cutting back the social gains achieved so far will lead to very high social tensions within the EU member states. As far for the social cohesion, we definitely need to consider the member countries joined the EU in the last 15 years, who are naturally interested in creating social cohesion. My primary purpose is to present the duality and growing tension within the enlarged European Union. Secondary objective of the paper is to present the European Union's development policy and to analyse the relationship and interaction between competitiveness and cohesion. My utmost aim is to uniquely demonstrate the differing interests of the core countries and the peripheries of the European Union. The countries of the strong core try to foster their competitiveness and maintain their own welfare political system, while the new Central and Eastern European countries are interested in the long-sought catching up. The signals of change of paradigm can be regarded in the development policy of the EU. The development policy based on market mechanism will be determined by competitiveness factors. The movement from the bureaucratic co-ordination to the market co-ordination is inevitable in the allocation of the EU funds. The change of paradigm can be established studying the structure of the former and current financial perspectives. The shift toward competitiveness is beneficial for the core regions of the EU projecting the vision of the two-speed Europe. Tensions are to be awaited because the newly accessed member-states are first of all interested in cohesion and social-economic close up (Musto, 2005).

The thesis is essentially theoretical in nature, therefore it is based on secondary sources. I used the aforementioned secondary sources and statistics in order to underpin my hypothesis. My assumptions are as follows:

- The future economic policy of the European Union will be determined by the intensification of competitiveness.
- The European Union cannot simultaneously increase its competitiveness and strengthen its economic, social and territorial cohesion under the circumstances of intensifying global economic competition.
- The European Union's Europe 2020 strategy puts the emphasis on the increase of competitiveness, and therefore cohesion is relegated to the background.
- A paradigm shift is outlined in the European Union's development policy. The development policy operating on the foundation of market mechanisms will be determined by the factors of competitiveness. It will be essential to move from bureaucratic co-ordination towards market co-ordination in the allocation of EU funds (Kornai, 1984).

The economic, social and territorial cohesion is based on three strategic directives in the period of 2007-2013:

- Enhancing the attractiveness of the member-states, regions and cities by ameliorating their access by securing the appropriate quality of services and maintaining the environment.
- Fostering innovations, entrepreunial spirit, the knowledge based economy and the new information communication technologies.
- Establishment of more and better jobs increasing employment, development of the absorption abilities of employees and enterprises, investments in human resources.

The following principles are to be taken into consideration so that the renewed Lisbon strategy can be accomplished. The cohesion policy within the renewed Lisbon strategy strongly concentrates on the creation of knowledge based economy, research and development and innovation. Sustainable development is further maintained by harmonising the coincidence between the economic, social and environmental protection dimensions. The national development policies regard the environment protection as a vehicle generating growth that strengthens competitiveness and increases employment. The environmental aspect is already considered in the preparation phase of the programmes. Furthermore the equality between genders and antidiscrimination are emphasized. In the framework of the Cohesion Fund and the aim of convergence the member states and regions entitled to maintenance have to prefer those European integration projects referring to their territory. Special attention has to be paid to cross-border connections within the trans-European networks transportation projects. In order to improve regional development and the effectiveness of transportation projects, the geographically isolated regions have to be involved in the TEN transportation projects.

The renewed Lisbon strategy contains considerable changes in comparison to the original concept. As the original Lisbon strategy concentrated on the cohesion, the renewed version prefers competitiveness to cohesion. Member-states being entitled to subsidies from the Cohesion and Structural Funds, use the funds of the Cohesion Fund to the financing of their TEN projects, while they withdraw funds from the Structural Funds to finance economic fostering projects (2006/702/EC, 291).

The growth of the EU and creation of new jobs require the shift of the economy into the direction of knowledge based activities. The EU has a big gap on the field of research and development compared to the USA and Japan. The private sector needs to struggle an even bigger lack. The Lisbon strategy established that the member-states should spend 3% of their GDP on R&D but this ratio is not fulfilled within the EU. The innovation gap of the EU compared to other global economic players becomes deeper and deeper. Unfortunately the commercialisation of the technological developments does not occur in the appropriate measure. The broadening of the national and regional capacities has to be fostered so that technology and knowledge are really used in the economy. The integration of the small- and medium sized companies into research and development activities is of utmost importance as these companies employ two-third of the workforce. It is rather important to co-ordinate the R&D activities of the state and the private sector so that duplicities can be avoided and synergy effects can be used. The cohesion policy aids the regions to establish their research and innovation capacities. The regions may take part in the European Research Space in that way.

The strategy of the integration referring to cohesion formulates the following directives:

- Strengthening of the co-operation among companies, research institutions and universities. Maintenance of regional and trans-regional clusters.

- Maintenance of the R&D activities and technology transfers within the SME sector. It is aimed that the SME sector has access to R&D services rendered by state owned research institutions.
- Maintenance of the trans-regional and trans-national initiatives. The aim is to foster the research co-operation and the efficiency on research fields prioritised by the EU.
- The research infrastructure and the human resources have to be developed on the fields disposing of considerable growth potential (2006/702/EK, 291).

1.1 New and novel scientific results of the study

The sources born in the specific theme are processed, synthetized and their overall, synthesis-type summary is given for the first time for the relationship system of competitiveness and cohesion. The article analyses the relationship system of competitiveness and cohesion through the theoretical, systematized processing of the various literature and the statistical and other empiric data base of the theme, with a new, scientific approach. The study inspects and evaluates the international and national specialized literature and other sources concerning the economic competitiveness and social cohesion with a new, complex research methodology, in inter- and multi-disciplinary dimensions. New, practical results and solutions contributing to the use of resources can be drawn for the designers and executers of development policies from the systematized connection of competitiveness and cohesion and deep analysis of their relationship system.

Significant result of the research is that analysis concerning the European Union's development policy can be used as professional, methodological material in the higher education and expert training in the theme. Application of the research material as a manual can be used in the field of preparation and practical work of experts engaged in the elaboration of tenders.

2.0 Research methodology and data sources

The thesis is essentially theoretical in nature, therefore it is based on secondary sources. The used bibliography is rather manifold as the subject is multi-disciplinary in nature. The first group consists of professional guides, journals and analyses, studies, annual reports and volumes connected to various research institutions, public institutions, offices, and industrial consultancy firms. I would like to emphasize the Europe 2020 strategy for smart, sustainable and inclusive growth of the Commission of the EU, the European Commission's reports on economic, social and territorial cohesion, and the annual reports of the European Investment Bank as main sources of my current study. The second group of the literature used is comprised of quarterly and annual reports, financial statements, press releases, presentations, project descriptions, statistical summaries published on the official web-sites of the European Union's institutions and various multilateral and national development banks. I used the aforementioned secondary sources and statistics in order to underpin my hypothesis.

The in-depth analysis of the social and economic developmental programs - presented in the European Commission's Lisbon Strategy as well as in the Europe 2020 Strategy – were essential for this paper. I have also used large amounts of newspaper and magazine articles from daily papers and weekly and monthly journals in order to follow the current developments. I also got important information from the conference materials and presentations made by the representatives of national development banks, above all the Hungarian Development Bank, and of research institutes dealing with competitiveness and social cohesion. I have contacted numerous Hungarian researchers and banking professionals to obtain first-hand, primary information.

The significant added value of the study is the meticulous exploration of the sources. Apart from some handbooks and journals, the electronically available sources dominate in the study. The used literature was written in English, Hungarian and German languages.

3.0 Structural effects of the financial funds of the European Investment Bank

The European Investment Bank integrates the common development strategy of the European Union when formulating its strategic directives and business policy. The actual financial policy of the EIB is based on the Europe 2020 strategy accepted in 2010. The maintenance of intelligent, sustainable and inclusive growth formulated in the Europe 2020 strategy was taken over by the EIB. The bank has evoked a separate working group so that the banking products and services suit the best way transportation, research and development, innovation and environment protection investments. Intelligent growth means the knowledge based, innovative economic growth. Sustainable growth is understood as establishment of competitive economy using the resources in a more efficient way. The aim of the inclusive, endogenous growth is to high employment and economic, social and territorial cohesion. The development strategy of the EU contains five outstanding areas: employment, research and innovation, climate protection and energy, education and struggling of poorness. The

aims are strongly interconnected with each other. Broadening the research, development and innovation capacities and rational resource management contribute to foster competitiveness and employment. The biggest challenge is to increase employment and productivity in the framework of the "knowledge triangle" that comprises out of maintenance of education (increasing the number of people disposing of diploma), fostering research activities and intensified innovation activities (using the research result in the economy).
The EIB approved more than 4 billion EUR for different educational investments and 7 billion EUR for research, development and innovation projects.

The first sheet presents the financing spent on knowledge based economy:

Chart 1: EIB fund allocation (Mill. EUR)

	2010	2000–2010
Infrastructure	4 761	25 208
Education	4 356	22 276
R&D	7 349	53 258
others	79	2 515
Total:	16 544	103 258

Source: EIB annual report 2010. 19. p.

The EIB strives to foster the financing of the knowledge triangle because these investments serve not only the increasing competitiveness but they also contribute to struggle poorness and social exclusion.

The EIB elaborated with the European Commission the Risk Sharing Finance Facility (RSFF) so that research and development projects and innovations with high risk and profit factors can be financed. The fund was financed by the EIB and the European Commission. 10 billion EUR are disbursed for R&D and innovation investments in the budget period 2007-2013. The total amount of these investments makes up at least the double of this.

The structural credit line facilities of EIB have to be mentioned. 2010 the bank financed the convergence regions hit by financial crises with 25.9 billion EUR. This amount of money makes up 41% of the total loan amount of 63 billion EUR granted in the EU. The member-states may use these loans for financing projects accepted by the structural funds.

The bank of the union provides also technical assistance activity to the newly joined 12 member-countries regarding the preparations for the most important investments approved by the structural and cohesion funds.
The following common European programs are distinguished:

- JASPERS - common program maintaining the investments of the European regions (EIB, European Commission, EBRD, Kreditanstalt für Wiederaufbau)
- JESSICA – common European initiative maintaining sustainable city developing investments (EIB, European Commission,
- JEREMIE – common European funds maintaining micro-, small and medium sized enterprises (EIB, European Commission)
- JASMINE – common program promoting European micro-financing institutions (EIB, European Commission) (EIB annual report, 2012)

The European Investment Bank elaborates an operational plan for 3 years that is monitored every half year and evaluated annually. The operational plan 2012-2014 contains all targets and sums up the crucial priorities and activities. Special emphasis is laid on so that the strategy of the bank harmonises the budget of the EU beginning 2014.

Several strategic parameters were developed to reform the operational plan. They are as follows:

- sustaining the core business model in order to grant the outstanding creditworthiness of the bank
- maintaining of the long term transparent investment projects
- Short- and middle term measurements need to be taken for the bank's financial stability and amelioration of the quality of the portfolio.

In order to struggle the economic and financial crises the bank reorganised its internal procedures and modified its financial services. Due to the changes the EIB managed to hold the leading financial institution of the EU. 90% of the total credit volume concentrates on the financing of the member states. According to the Europe 2020 strategy the EIB finances projects representing high value added regarding economic growth, employment, and cohesion and environment protection. The EIB provides preference to projects to be accomplished in regions lacking the necessary capital. The bank lays special emphasis on climate protection commitments of the European Commission and the member states.

The bank prioritises the single investment projects in order to reach maximal efficiency and be in line with the common goals set by the EC. The common goals are as follows:

- increase the growth and employment potential of the EU
- economic and social cohesion
- projects contributing to the climate actions-program (EIB Operational Plan 2012-14).

The co-operation of the EIB with the European Commission and other financial institutions specialised in long term project financing unambiguously showed the synergy effects. The development of the common actions greatly contributes to the common risk-division mechanism. The EIB furthermore provides financial and technical advisory activity in order to strengthen the political goals of the union. The EIB needs to elaborate financial solutions tailored to infrastructural projects covering whole Europe. These projects necessitate long preparation periods because of the joint financing of the state and the private investors and several states are involved. Considerable economic disparities between member-states cause further delays concerning the investments to be financed by the EIB. 50% of the bank's financing concentrates on infrastructural and energy efficiency projects. The European small- and medium sized enterprises sector is crucial pillar of the European economy. The SME sector faces serious financing problems hindering economic growth and innovations. The bank needs to fulfil different criterion at the same time: ranking of the funds resources, pricing of financial intermediaries, use of the funds in the utmost efficient way in the interest of the final beneficiaries. The European Investment Fund is charged with securing risk capital for the SME sector. The European Micro-financing Fund financed by the EIB and the European Commission is trusted by the European Investment Fund.

In the framework of the climate action program the EIB faces severe difficulties due to the low risk taking willingness of the commercial banks, the economic recession and the uncertainties experienced in the regulation of the renewable energy sector. In order to reach touchable result on European level, the EIB will reduce the average project size compared to the past periods. The projects are to be classified according to transparent enlisting order so that the bank's value added can be maximised. The second chart demonstrates very well the outstanding financing position of the knowledge economy and environmental protection.

Chart 2: Credit targets

category	unit	2011	2012
convergence	bill EUR	21	18
knowledge economy	bill EUR	9.8	8.4
EIB loans	bill EUR	9.8	8.4
European Investment Fund	bill EUR	1.2	1.3
trans-European networks	bill EUR	9.5	6.3
environmental protection	bill EUR	15.9	11.3
SME sector	bill EUR	10.4	11
EIB loans	bill EUR	10.4	11
European Investment Fund	bill EUR	1.3	1.3
energy projects	bill EUR	12	9.5

Source: EIB Group. operational plan 2012-2014. EIB 16th February 2012. 15.p.

Chart 3: Political goals

goals	unit	2011	2012	2013	2014	2012-14 average
Credits contributing to growth and employment targets	bill. EUR	39.5	32.7	31.8	30.8	31.8
knowledge economy, EIB loans	bill EUR	9.8	8.4	8.1	7.8	8.1
knowledge economy, European Investment Fund	bill EUR	1.2	1.3	1.3	1.3	1.3
trans-European networks - transport	bill EUR	8	6	5.8	5.6	5.8
competitive and safe energy supply	bill EUR	7.5	4.5	4.5	4.4	4.5
SME sector EIB loans	bill EUR	10.4	11	11	10.7	10.9
SME sector EIF guarantees	bill EUR	3.8	2.8	2.4	2.3	2.5
urban rehabilitation	bill EUR	3.8	2.8	2.4	2.3	2.5

Source: EIB Group, operational plan 2012-2014. EIB 16th February 2012. 15.p.

The third chart exactly shows that the EIB financing reflects the priorities of the Europe 2020 strategy.
Half of the bank's total credit volume is made of by infrastructural and energy projects. All of these projects play an important role to increase the economic growth and employment. This fact underpins the emphasis the EIB lays on transportation and energy projects. The urban infrastructure developments proceed in the framework of the JESSICS program.

The following additional regional development targets have to be considered in the convergence regions:

1. geographical location of the disparity level
2. special part of the operation plan of the European Commission
3. Abolishment of the lacks experienced in the implementation of the acquis communautere (environmental standards.
4. Increasing of the productivity and interconnection of the regions.

The EIB will pay intensified attention to the climate action programs and infrastructure and energy projects bearing considerable economic multiplication effect in the future. Such sectors belong to the preferred financing priorities of the EIB, in which the European enterprises dispose of comparative advantage. Such sectors are for example biotechnology, environmental protection vehicles. The support of the "greener growth" does not only refer to the renewable energy sources but to the industrial infrastructure and the energy efficient development of transportation and shipping.

The bank develops new financial products by combining the structural funds of the EU and its own sources so that it may even more efficient serve the goals laid down in the Europe 2020 strategy. The new banking products provide alternative solution to extend funds of the EU and EIB by sharing the risks.

The role of the SME sector cannot be questioned regarding growth and innovations so it remains central element of the EIB's financing policy. The EIB elaborates business development plans in co-operation with decisive commercial banks specialised in the SME sector so that loans can really foster the competitiveness. The European Investment Fund greatly contributes to the economic growth of the EU by its micro-financing, mezzanine loans and risk capital. The European Investment Fund and the EIB play a major role in strengthening the innovations and development of the enterpreunial spirit by linking the competitiveness and innovation programs of the EU and the JEREMIE financing tools.

4.0 Division of the funds of the structural funds and the cohesion fund

The main goal of the European cohesion policy is to assure the institutionalized financial framework for different projects, which contribute to the economic growth of the member states. The cohesion policy is revised all 7 years. The expenditures of the regional and cohesion policies are managed by three structural funds, the European Regional Development Fund, European Social Fund, and European Cohesion Fund. The European cohesion policy is based on three pillars: convergence, regional competitiveness and employment, European territorial co-operation.

Article 25 of the regulation 1083/2006/EK provides economic, social and territorial instructions for interventions concerning the aforementioned structural funds. The harmonious, balanced and sustainable development of the EU is always considered (2006/702/EK, 12).

The accession of new candidate countries deepened the inequalities among the regions. The opportunity has to be considered that the poorest regions with great growth potential are located in the new member states. The new element of the cohesion policy, the territorial cohesion has a central role. 13th point of the resolution met by the European Council concerning the cohesion policy contains as follows: "territorial dimension of the cohesion policy is of crucial importance and all territories of the EU should have access to the development sources for growth and employment purposes. Strategic guidelines have to consider investment needs of towns and rural territories in the interest of harmonious development, sustainable communities and social integration (2006/702/EK, 20).

The overwhelming part of the budget of the cohesion policy refers to convergence issues. The cohesion funds are used in the poorest regions, where the GDP does not reach 75% of the European average. The developmental funds are first of all spent on infrastructure and transport projects. 100 European regions belong to this target with 170 million inhabitants, one third of the total European population. The convergence regions are located in the Middle-Eastern European countries and in the Mediterranean countries. 170 regions belong to the regional competitiveness and employment target. In this case the developmental funds are used for co-financed investments contributing to the strengthening of competitiveness and innovation capacities, the development of the human resources and absorption capabilities of the workforce.

The European territorial co-operation target supports the joint actions between the different regions and the change of experience. Decisive proportion of the funds is spent at the development of cross-border co-operations. 81,5% of the funds at disposal are spent on convergence issues, as 16% are spent on competitiveness and employment issues, while 2,5% of the funds are used for European territorial co-operation purposes (Cohesion Policy 2007, 15).

The financial perspective for the period 2007-2013 stipulated 347 billion EUR for the development funds of the EU. The European Regional Development Fund receives 201 billion EUR, the European Social Funds receives 76 billion EUR, while the European Cohesion Fund receives 70 billion EUR from the total amount. The cohesion policy needs to reach considerable results on the field of economic and social cohesion, and reduction of the developmental disparities between the regions. The concept is based on the establishment of modern regions that function as engine of economic growth and competitiveness in the unified European economic space. The EU lays big emphasis on the exchange of experience and well-functioning procedures and processes. It is exceptional in the history of the European Union that 350 billion EUR are spent on regional developments in a period of financial perspective.

March 2000 the leaders of the EU approved a new strategy for economic growth and employment on the Lisbon summit. It was aimed that the EU's economy would become the most competitive economy. As there are considerable disparities among the old and new member states considering the allocation of the funds. In Spanish and Portugal convergence regions 80% of the total investment volume is spent on convergence targets, as in Danish competitiveness regions 92% of the total investment volume serves competitiveness objectives. Although Bulgaria, Rumania and Poland should execute serious national, regional and local infrastructure projects, they decided to spend the funds on targets stipulated in the Lisbon strategy. The European Council set four priorities in the renewed Lisbon strategy: more knowledge based innovation investments, fostering of business opportunities in the SME sector, increasing employment and more efficient use of the energy sources. The new cohesion programs prefer these priorities. More than 85 billion EUR are allocated to the knowledge based economy in the current financial perspective. The new programs provide a further fund of 13 billion EUR to human resources development of enterprises and innovative procedures contributing to more efficient work organisation. The funds also help calming the difficulties caused by restructuring. It is also aimed that the entering of the labour market is eased for young employees and the institutions responsible for employment issues are modernised. The decision makers recognised the outstanding role of public education and professional trainings.

Chart 4: The division of the subsidies granted by the ERDF and ESF during the financial perspective 2007-2013 in the 27 EU member states

Development fields	%
culture	2.2
energy	4
environment protection, prevention	18.7
increase of durable employment	0.4
human resources	0.4
combat against social exclusion	0.1
development of the absorption capabilities of employees and enterprises	0.3
information society	5.6
investment into the social infrastructure	6.2
mobilisation on the field of employment	0.1
cost reduction hindering regional development	0.2
R&D. innovations	23.8
development of institutional capacities at local, regional and national level	0.6
technical aid	3
tourism	2.3
transportation	28.3
urban and rural regeneration	3.8
Total	**100**

Source: Cohesion Policy 2007-13, National Strategic Reference Frameworks, January 2008. Luxembourg: Office for Official Publications of the European Communities 2007 7. p.

The European Union allocate five times more funds for the common energy policy the efficient use of energy sources and renewable energy sources during the current financial perspective than during 2000-2006 in the

convergence target. This tendency is even more decisive in the regional competitiveness objective. The fourth chart demonstrates that the R&D, innovations, transportation and environmental protection play the most important role within the cohesion targets.
The new cohesion programs strive to use the synergies in the most complete way. The Trans-European transportation networks have a privileged position among the convergence targets.

Efficient state administration is inevitable to accomplish the Lisbon strategy. For this purpose 3, 6 billion EUR were allocated for the modernisation of local, regional and national administration.

Chart 5: The division of the subsidies granted by the European Social Fund during the financial perspective 2007-2013 in the 27 EU member states

Development fields	%
increase of durable employment	28.4
human resources	32.9
combat against social exclusion	13.1
development of the absorption capabilities of employees and enterprises	17.8
information society	0.2
investment into the social infrastructure	0.2
mobilisation on the field of employment	1.2
R&D. innovations	0.1
development of institutional capacities at local, regional and national level	2.8
technical aid	3.3
Total:	100

Source: Cohesion Policy 2007-13, National Strategic Reference Frameworks, January 2008. Luxembourg: Office for Official Publications of the European Communities 2007 7. o.

The fifth chart shows that the decisive share of the ESF funds are spent on the establishment of enduring employment and development of human resources. The annual budget of the European Union totals approximately 120 billion EUR. This amount of money makes up 1% of the GDP of the member states. The structural and cohesion funds have a proportion of 33% within the total EU budget. The European Social Fund disposes of 8% within the total EU budget. The European Social Fund spends 75 billion EUR on the establishment of qualitative jobs. The structural funds have a proportion of 35% within the entire EU budget totalling 42 billion EUR annually. The GDP per capita ratio defines weather a region belongs to the convergence or regional competitiveness target. In case of the convergence regions the co-financing of the ESF can make up even 80% of the total costs.

In the framework of the convergence target such employment projects are financed that shift the economic growth and employment rate to the average of the EU. In the framework of the regional competitiveness target the European Social Fund support the labour market of such countries and regions that become more competitive following these financing. In all member states the convergence regions receive more funds. The new member states receive proportionally more funds than the older ones. This measurement is in line with the expectation that the new member states need to close up their economies and accommodate their labour market to the global expectations. This reflects unambiguously the cohesion serving function of the ESF. The regions in need are supported so that the European Union becomes more and more unified.

5.0 Financial perspective of the European Union between 2007-2013

Chart 6: Financial perspective 2007-2013 (mill EUR at prices 2004)

Description	2007	2008	2009	2010	2011	2012	2013	2007-2013
1. Sustainable growth	51 267	52 415	53 616	54 294	55 368	56 876	58 303	382 139
1.a. competitiveness for growth and employment	8 404	9 097	9 754	10 434	11 295	12 153	12 961	74 098
1.b. Cohesion for growth and employment	42 863	43 318	43 862	43 860	44 073	44 723	45 342	308 041
2. Preserving and maintenance of natural resources	54 985	54 322	53 666	53 035	52 400	51 775	51 161	371 344
from which: costs and direct payments relating to the market	43 120	42 697	42 279	41 864	41 453	41 047	40 645	293 105
3. Citizenship, liberty, safety, justice	1 199	1 258	1 380	1 503	1 645	1 797	1 988	10 770
4. EU as global partner	6 199	6 469	6 739	7 009	7 339	7 679	8 029	49 463
5. Administration	6 633	6 818	6 973	7 111	7 255	7 400	7 610	49 800
6. Compensations	419	191	190	-	-	-	-	800

Total commitments directives	120 702	121 473	122 564	122 952	124 007	125 527	127 091	864 316
in % GNI	1.100%	1.080%	1.070%	1.040%	1.030%	1.020%	1.010%	1.048%

Source: European Commission: ICEG Working paper 20., 30.06.2007, 6. p.

Investigating the financial perspective 2007-2013 (6. chart) it can be stated that the main emphasis is laid upon competitiveness. The provision for competitiveness for growth and employment increases by 6-7% annually. The provision for agriculture and rural development was decreased by 3% on an annual basis.

Chart 7: Changes of the structure and priorities of the financial perspective 2000-2006 and 2007-2013 (mill EUR at prices 2004)

Commitment provisions	2000-2006 (at 2004 prices)	%	Commitment provisions	2007-2013 (at 2004 prices)	%
1. agriculture	330 544	44.33%	1. sustainable growth	382 139	44.21%
1.a common agriculture	292 287	39.20%	1.a. competitiveness for growth and employment	74 098	8.57%
1.b rural development	38 257	5.13%	1.b. Cohesion for growth and employment	308 041	35.64%
2. structural activities	258 656	34.69%	2. Preserving and maintenance of natural resources	371 344	42.96%
Structural funds	230 900	30.96%	from which: costs and expenses relating to the market	293 105	33.91%
Cohesion Fund	27 756	3.72%	3. Citizenship. Liberty, safety	10 770	1.25%
3. Internal policies	52 439	7.03%	3.a. liberty. safety, justice	6 630	0.77%
4. External actions	34 486	4.62%	3.b citizenship	4 140	0.48%
5. Administration	38 099	5.11%	4. EU as a global actor	49 463	5.72%
6. Reserves	4 258	0.57%	5. Administration	49 800	5.76%
7. Pre-accession subsidies	23 493	3.15%	6. Compensation	800	0.09%
8. Compensations	3 750	0.50%			
Commitments	745 725	100.00%	Commitments	864 316	100.00 %

Source: European Commission: ICEG Working paper 20., 30.06.2007, 15. p.

The seventh chart exactly shows the structural changes in the commitment provisions. The Treaty of Rome strived to establish the European economic and political union. The member states had to delegate several national competences to European level so that the aforementioned goals can be reached. The extending European competences and targets necessitate the growing contribution to the common European budget. The different country groups within the EU dispose of different interests. The net in-paying countries regard the common budget as a basis and not the common policies and targets. The net in-paying countries require the proportional division of the funds and the stronger representation of the national interests. The beneficiaries of the common budget support solidarity, the strengthening of convergence and the redistribution of the common budget. The character of the common budget considerably changed due to the accession of the Mediterranean countries. The underdeveloped peripheries needed the redistribution of the common funds. The cohesion needs and demand of the newly joined Middle-Eastern-European countries make the situation even more difficult because the funds to be distributed decreased and the new financing needs turn up in the middle of the economic recession. The new member states are first of all interested in the close-up and the deepening of cohesion. Severe disputes are to be reckoned with between the core regions and the peripheries. The interest clash is also to be treated between the former beneficiaries and the new Middle-Eastern European new comers. Above that there are theoretical disputes as well. The one standpoint supports the market protection while the other one struggles for the competitiveness. The decision makers of the EU face a serious dilemma. Either they strengthen the competitiveness of the core regions or they struggle for the close up of the underdeveloped regions. The EU needs to make the decision whether it support quicker economic growth with considerable developmental differences or slower economic growth with decreasing developmental differences. Studying the Europe 2020 strategy it is unambiguous that the EU prefers the competitiveness in the circumstances of the current recession that projects the two-speed Europe. The size of the European budget underwent serious changes in the last decades. The common budget made up 0.4% of the GDP of the EU during 1965-1970. Overwhelming part of the budget was spent on agriculture. The common budget was increased up to 0.85% of the GDP of the EU by 1985, so it doubled (Borkó et al., 2007, 9) . Agriculture further played a decisive role in the budget. Structural policies became more and more important due to the accession of the Mediterranean countries. 1.24% of the GDP of the EU was assessed as the size of the European budget.

Chart 8: Division of funds for convergence and regional competitiveness in the 27 member states between 2007-2013

Description	Convergence			regional competitiveness and employment		European territorial co-operation	Total
	Cohesion	Convergence	ceasing subsidies	new subsidies	regional competitiveness and employment		
Belgium			638		1 425	194	2 257
Bulgaria	2 283	4 391				179	6 853
Tschech Rep.	8 819	17 064			419	389	26 691
Denmark					510	103	613
Germany		11 864	4 215		9 409	851	26 339
Eastland	1 152	2 252				52	3 456
Ireland				458	293	151	902
Greece	3 697	9 420	6 458	635		210	20 420
Spain	3 543	21 054	1 583	4 955	3 522	559	35 216
France		3 191			10 257	872	14 320
Italy		21 211	430	972	5 353	846	28 812
Cyprus	213			399		28	640
Latvia	1 540	2 991				90	4 621
Litvania	2 305	4 470				109	6 884
Luxemburg					50	15	65
Hungary	8 642	14 248		2 031		389	25 310
Malta	284	556				15	855
Nederland					1 660	247	1 907
Austria			177		1 027	257	1 461
Poland	22 176	44 377				731	67 284
Portugal	3 060	17 133	280	448	490	99	21 510
Rumania	6 552	12 661				455	19 668
Slovenia	1 412	2 689				104	4 205
Slovakia	3 899	7 013			449	227	11 588
Finland				545	1 051	120	1 716
Sweden					1 626	265	1 891
United Kingdom		2 738	174	965	6 014	722	10 613
interregional co-operation						445	445
technical aid							868
Total:	69 577	199 323	13 955	11 408	43 555	8 724	347 410

Source: Cohesion Policy 2007-13, National Strategic Reference Frameworks, January 2008. Luxembourg: Office for Official Publications of the European Communities 2007. 8.p.

Analysing the eighth chart it can be established that the Middle-Eastern European formally socialist countries spend almost their entire funds on convergence targets. Among the 10 accession countries only Slovakia and the Czech Republic spend a minimal share, 2-5% on regional competitiveness and employment purposes. Also Hungary spends the total fund of 25.307 million EUR on convergence and cohesion targets. 59% of the allocated funds fell on convergence and cohesion targets in Germany in the period 2007-2013. In France the situation is the contrary, 68% of the funds are spent on the strengthening of competitiveness. The fund allocation of the different countries very good demonstrates the establishment of the two-speed Europe. While the new member states and the Mediterranean countries allocate negligible funds to competitiveness purposes – with the exemption of Spain and Italy (33 and 26%) – the Benelux countries, Denmark, Ireland and France spend considerable share of the funds to intensify their competitiveness.

Chart 9: Innovations within the convergence, competitiveness and territorial co-operation

Convergence target							
country/country group	total amount	innovations	Proportion of innovation (%)	Proportion of innovation types (%)			
				R&F	enterpreunial spirit	innovative infocom	HR
Germany	16 079 334 622	4 678 763 983	29.10%	18.73%	4.31%	1.25%	4.80%
France	3 191 155 555	499 065 512	15.64%	6.42%	2.95%	1.90%	4.37%
United Kingdom	2 912 549 625	1 113 731 864	38.24%	21.29%	4.27%	3.93%	8.76%
Italy	20 320 956 213	6 916 063 530	34.03%	23.26%	3.14%	5.79%	1.85%
Hungary	22 889 720 839	3 323 424 847	14.52%	8.37%	1.22%	2.78%	2.16%
Poland	65 221 852 992	14 199 841 734	21.77%	13.15%	2.04%	4.19%	2.40%

EU 27	279 977 939 628	61 338 506 365	21.91%	13.22%	1.94%	3.71%	3.04%
EU 15	109 538 657 960	27 669 239 372	25.26%	15.59%	2.46%	3.78%	3.43%
EU 12	170 439 281 668	33 669 266 993	19.75%	11.69%	1.60%	3.68%	2.79%
Regional development and employment target							
country/country group	total amount	innovations	Proportion of innovation (%)	Proportion of innovation types (%)			
				R&F	enterpreunial spirit	innovative infocom	HR
Germany	9 409 281 668	3 719 975 394	39.54%	16.87%	10.17%	1.26%	11.24 %
France	10 258 065 496	3 704 472 274	36.11%	19.86%	3.72%	4.41%	8.13%
United Kingdom	6 978 387 838	3 312 213 813	47.46%	22.95%	5.66%	2.31%	16.55 %
Italy	6 324 890 107	2 535 583 307	40.09%	19.38%	5.93%	3.91%	10.86 %
Hungary	2 031 427 761	462 802 756	22.78%	12.43%	0.97%	5.61%	3.77%
Poland	55 184 064 762	21 814 343 329	39.53%	20.56%	4.93%	3.52%	10.52 %
EU 15	51 676 348 431	20 804 234 883	40.26%	20.73%	5.18%	3.35%	11.00 %
EU 12	3 507 716 331	1 010 108 446	28.80%	18.00%	1.21%	6.02%	3.56%
European territorial co-operation							
country/country group	total amount	innovations	Proportion of innovation (%)	Proportion of innovation types (%)			
				R&F	enterpreunial spirit	innovative infocom	HR
European territorial co-operation	7 428 375 549	1 994 705 122	26.85%	15.99%	2.37%	6.69%	1.80%
All targets							
country/country group	total amount	innovations	Proportion of innovation (%)	Proportion of innovation types (%)			
				R&F	enterpreunial spirit	innovative infocom	HR
Germany	25 488 616 290	8 398 739 376	32.95%	18.05%	6.47%	1.26%	7.18%
France	13 449 221 051	4 203 537 786	31.25%	16.67%	3.54%	3.81%	7.24%
United Kingdom	9 890 937 463	4 425 945 677	44.75%	22.46%	5.25%	2.79%	14.25 %
Italy	26 645 846 320	9 451 646 837	35.47%	22.34%	3.81%	5.34%	3.99%
Hungary	24 921 148 600	3 786 227 603	15.19%	8.70%	1.20%	3.01%	2.29%
Poland	342 759 567 465	85 197 888 856	24.86%	14.46%	2.43%	3.75%	4.22%
EU 15	161 215 006 391	48 473 474 255	30.07%	17.24%	3.33%	3.64%	5.86%
EU 12	173 946 997 999	34 679 375 439	19.94%	11.82%	1.59%	3.72%	2.80%

self-made chart

The European Union totally spends 342,757,567,465,-EUR on convergence, and regional competitiveness and employment targets, from which innovations disposes of 25% (85,198 million EUR). The old member countries may use 48 billion EUR; the new member countries may use 35 billion EUR from this amount of money. Comparing the actual data to the date in the financial period 2000-2006 it turns out that the funds spent on innovations doubled.

Analysing the sheet above it can be assessed that 60% of the funds within the convergence are spent in the new member counties, and the remaining 40% are allocated among the old member countries. The proportion is just the contrary in case of regional competitiveness and employment objectives. 94% of the funds fall on the old member states and only 6% of the funds are used in the new member states. The cohesion policy for the period 2007-2013 requires such a strategic approach that integrates the growth strategies at European, regional and local level. The new concept strives to assure that the different sectors are developed not separately and the economic and social circumstances of the given member state or region are investigated in every case.

In the current financial period innovations got into the centre of the vision of the cohesion policy. The regions are also spurred due to the changed circumstances to elaborate their own innovation strategy. The renewed Lisbon strategy and the cohesion strategy decisively emphasize the importance of innovations that are regarded as key element of struggling the European economic problems.

6.0 Consequences

I present in the fourth chapter the decisive differences undertaken in the fund allocation during the financial perspective 2007-2013 compared to the former financial period. The changes can be seen in the comparing sheet. The emphasis was shifted towards competitiveness in the financial perspective 2007-2013. The provisions for competitiveness issues grow by 6-7% at an annual basis. At the same time provisions for agriculture decrease by 3%. 85.5% of the funds of 347,410 million EUR at disposal are spent on convergence issues, 16% are spent on regional competitiveness issues, while 2.5% of the funds are used for European territorial co-operation. Analysing the sheet concerning innovations, convergence and competitiveness I present in the fourth chapter that 60% of the funds are used in the new member states and the remaining funds are allocated in the old member states. The proportion is just the contrary in case of regional competitiveness and employment objectives. 94% of the funds fall on the old member states and only 6% of the funds are used in the new member states. Development of competitiveness will cause tensions in the EU, because the programs of the new member states are not so sophisticated and their institutional underdevelopment greatly shrinks their absorption abilities.

The proportion of innovations is crucial in the regional competitiveness target at EU level, it makes up 39.53%. The fund allocation for innovations is first of all crucial in the old member states. The old member states allocate 40.26% of the funds to innovations in the framework of the competitiveness target. The same proportion makes up only 28.8% in case of the newcomers. The difference of the funds of human resource development within innovations is even more astonishing in the old- and new member countries. The EU 15 spend 11% of the innovation funds on HR development while the spending of the EU12 makes up only 3.56%.

Turning up the competitiveness factor the two-speed Europe is to be projected.

It can be stated that the effectiveness of the market co-ordination may result in the better quality of bureaucratic regulation. This mutual strengthening process can be regarded as success countries disposing of developed, innovative economy. In spite of that, bureaucratic co-ordination and administration captured by of social relationships and interest group networks means the main burden for redistribution based on real performance (Kornai, 1984).
According to me, it was a good decision that the competitiveness is the core element of the Europe 2020 strategy even though social cohesion is negatively hit at the beginning because the establishment of the knowledge economy assures the future of Europe for the long term. When executing the strategy utmost attention has to be paid to the amelioration of the absorption abilities for innovation of the Middle-Eastern European countries. The new member states must take further steps so that their university and other professional educations suit the requirements set by the market.

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